
Date: April 14, 2008

To: Moody's Investors Service
Credit Policy Committee

From: Lamont Financial Services

Re: *Global Scale Ratings*

Thank you for the opportunity to comment on Moody's proposal regarding Global Scale Ratings (GSR). Lamont Financial Services (Lamont) has long been a proponent and user of GSRs, and supports Moody's movement towards expanding their use in the market.

As you know, Lamont ranks among the top 10 financial advisors in the U.S. public finance business, having advised issuers on over \$75 billion in transactions since its inception in the mid-1980s, and over \$10.5 billion in 2007. Our client base consists of large, complex issuers, principally states, state authorities, cities, and water utilities. In addition, our clients issue over half the national volume of State Revolving Fund bonds (SRFs), most of which are rated Aaa on the municipal scale. The following comments are solely Lamont's, and not our clients'.

Lamont endorses the expanded use of GSRs. We believe that the separate scale for municipal bonds leads to market inefficiencies that raise the cost of funds for municipal issuers. Retail investors are largely unaware that the likelihood of default and potential loss upon default are lower for municipal bonds than for corporate bonds at the same rating level. While large institutional investors understand this dynamic, the significance of retail investors in the tax-exempt market causes the pricing distortion to persist. Some differential in pricing between the municipal market and other sectors of the bond market can be explained by liquidity obstacles for large numbers of small issuers, as well as by uncertainty regarding future federal and state tax rates. However, we believe that the pricing differential is greater than can be explained by these factors.

In the current market environment, the most extreme example of market distortion can be found in money market funds covered by SEC Rule 2a-7, where even very strong municipal issuers must purchase credit enhancement from providers with higher GSRs because the municipal scale rating overstates actual risk. As you are aware, the failure of the Auction Rate Securities market has driven up demand for letters of credit and liquidity facilities. In some sectors, such as student loans, little or no capacity is available. In the most perverse cases, state appropriation bond issuers with A1 municipal scale ratings must purchase letters of credit from banks with Aa GSRs to make their VRDBs 2a-7 eligible, even though these same state bonds would have a higher GSR than the credit-enhancing bank. Annual fees for such letters of credit are as high as 90 basis points in the current market, and capacity is constrained.

Beyond the general support for GSRs, Lamont also wishes to make the following specific recommendations:

Lamont Recommendations Regarding Global Scale Ratings:

1. ***GSRs should be assigned to all investment grade municipal bonds in the major bond sectors and not only to those for which the issuer has requested the GSR.***

If GSRs are limited in application, it is unlikely that they will have the intended effect of improving the efficiency of market pricing. In order for GSRs to influence the market, they need to be the norm. Otherwise, the current pattern whereby sophisticated institutional investors have an information advantage over retail

investors will persist. Institutional investors with research staffs will have the benefit of Moody's research regarding mapping the municipal scale, while less sophisticated retail investors will not.

We appreciate that in certain sectors, automatic mapping from municipal ratings to GSRs runs the risk of assigning GSRs that are too high. Moody's may wish to take a different approach to certain particularly complex sectors with a wide variety of issuers and risk profiles. The sectors described as having Loss Given Default (LGD) rates of 45% and 55% in Moody's March 2007 publication (Figure 14), for example, could call for a case-by-case approach. Similarly, Moody's may wish to evaluate individual issues with municipal ratings below investment grade before assigning a GSR. However, for issues with investment grade municipal bond ratings in the sectors classified as having LGD rates of 30% or less, Lamont advocates assigning GSRs to all issues based on the map.

2. *There should not be a separate fee for GSRs.*

As discussed above, GSRs need to be broadly applied if they are going to be used by market participants in the pricing of bonds and if retail and institutional investors are to be provided with a level playing field of information regarding the true default risk of municipal bonds. An additional fee would be likely to prevent the wide application of GSRs and undermine their impact. An exception for those ratings assigned on a case-by-case basis (see #1 above) would be reasonable.

3. *Data feeds to such market data tools as Bloomberg should provide GSRs rather than ratings on the municipal scale.*

We believe that it would be overly complex to expect market data services to manage a dual ratings system that would provide the market with equal access to both ratings scales. Experience with underlying ratings for insured municipal bonds indicates that there are limits to the complexity of ratings information that can be conveyed in a "digitized" form and used in bond pricing. We recommend that in those areas where Moody's transmits ratings data to market participants to be used for bond pricing, the GSR be the primary rating symbol. Similarly, the Moody's rating desk should convey the GSR as the primary rating, with the municipal scale rating as additional information. Finally, Moody's should support the practice of using the GSR in preliminary official statements, and for purposes of SEC Rule 2a-7, although we appreciate that other market participants, particularly the legal and regulatory community, will also influence how such practices evolve.

4. *Modifiers to the Aaa (Aaa1, Aaa2, and Aaa3) should be introduced.*

Under a global scale, a large number of municipal bonds would fall into the Aaa category. We believe that differences among credits in this category will be as significant here as in the lower ratings categories, and that modifiers would be equally useful and informative in the Aaa category. Further, we recommend that the Aaa1 category be limited to municipal scale Aaa's.

Separately, Lamont would like to discuss how the introduction of GSRs will bear on the SRF sector, given its exceptional credit strength. Moody's recognition of the low expected loss rates in the water and sewer sector raises issues related to the rating approach towards SRFs, which demands extraordinarily high collateral levels to achieve municipal scale Aaa ratings. In our view, these issues should be rated Aaa1 on the global scale. In addition, we believe many of these programs have the financial capacity to leverage assets further to make additional loans while still maintaining their Aaa1 GSRs and municipal scale Aaa ratings.

Thank you for the opportunity to comment on Moody's approach to municipal ratings. We applaud Moody's recognition of the evolution of the market, and its leadership role in this complex area.